

BILL # HB 2585

TITLE: private retiree health insurance; subsidy

SPONSOR: McClure

STATUS: As Introduced

PREPARED BY: Eric Jorgensen

FISCAL ANALYSIS

Description

This bill provides a new benefit to retired members of the Correctional Officers Retirement Plan (CORP), effective July 1, 2008. Currently, CORP members can receive a health insurance subsidy if they enroll in a plan administered by the Arizona Department of Administration (ADOA), the Arizona State Retirement System (ASRS), or their former employer. This bill would allow CORP retirees to receive a \$25 monthly health insurance subsidy if they purchase individual health care coverage on their own. The bill also requires former employers to provide the administrative functions associated with the premium payment.

Estimated Impact

This bill has an estimated General Fund cost of \$749,700 beginning in FY 2009. Of the total cost, \$590,300 is for an estimated CORP employer contribution rate increase of 15 basis points, or 0.15% for the \$25 monthly subsidy. This represents the aggregate, system-wide rate increase, not the actual rate increase for each employer, as the CORP actuary is unable to provide that information. The remaining \$159,400 is for administrative costs to ADOA associated with providing payment support.

Analysis

Along with pension benefits, the state retirement systems provide a limited subsidy for health insurance premiums. An employee is eligible for this subsidy if they enroll in a health plan through ADOA, ASRS or their former employer, or a private plan if their former employer agrees to administer the premium payment process. This bill would now require employers to provide the administrative payment process for private plans, such as verifying that the subsidy is used for payment of health insurance premiums. The subsidy for private plans would be limited to \$25 per month (\$300 per year).

For the state, the administrative payment process would likely be handled by ADOA. ADOA has indicated that this would require the addition of 4 FTE Positions to process payments, create and maintain interfaces with private vendor, and perform other administrative duties. ADOA estimates the cost would be \$285,000 annually, which represents the minimum cost to run such a program for both CORP retirees and Public Safety Personnel Retirement System (PSPRS) retirees (PSPRS retirees will be eligible to participate effective July 1, 2008 under Laws 2004, Chapter 325). Based on the percentage of state retirees from each system, CORP's share would be \$159,400. ADOA also states that some parts of the bill are ambiguous and that this is a preliminary estimate based on their current understanding of the bill.

In CORP each employer pays a different contribution rate based on their experience. Actuaries under contract for CORP estimate that this bill would increase the aggregate contribution rate 15 basis points or 0.15%. The actuary is unable to provide employer specific rates.

Contribution rates have 2 components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability represents the cost of providing benefits to recipients who do not fully pay for the benefits as part of the normal cost. Unfunded liability is generally paid over time (in CORP it is a 30-year period). Of the increase, 8 basis points are for the normal cost. The remaining 7 basis points pay the unfunded liability created by the bill. This bill is estimated to increase the total unfunded liability in the plan by \$6.8 million.

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This increase in the contribution rate would result in increased Employee Related Expenditures for agencies. Since we do not know the specific rate increases for the Department of Corrections or the Department of Juvenile Corrections, this analysis assumes the aggregate rate increase of 15 basis points. Assuming FY 2008 Personal Services amounts, the total cost to the state of a 15 basis point increase in the CORP contribution rate would be \$590,300 annually from the General Fund. This would not change employee contribution rates, as those rates are set in statute.

Local Government Impact

Because CORP includes local government employers, there would also be a local government cost. A 15 basis point increase in the contribution rate is estimated to cost local governments \$208,900 annually. Local governments would also incur additional administrative costs.

3/12/07